

Statement of Frank Knapp, September 1, 2016

Settlement with SCE&G is a victory for ratepayers

Today a settlement has been filed with the South Carolina Public Service Commission (PSC) in regard to SCE&G's request that \$852 million additional costs for the construction of two nuclear plants at the V.C. Summer Nuclear Station in Fairfield County be approved.

As a personal intervenor in this PSC Docket, I have signed onto the settlement because it addresses my concerns about SCE&G's request.

Under the Base Load Review Act (BLRA), SCE&G has had almost unlimited ability to receive approval of additional construction costs for the nuclear plants, costs that will be totally paid by the ratepayer. In addition, the BLRA has allowed SCE&G to receive an electric rate hike every year just to pay for the construction financing costs of building the two plants with the result being approximately 17% higher rates since 2009 for this project. Finally, SCE&G is protected by the BLRA from the PSC changing the company's Return on Equity, which stands at 10.5 percent, without the company's consent. The totality of the impact of the BLRA has been a blank check for the company with no risk being borne by the SCE&G shareholders.

My opposition to SCE&G's request centers on three things:

- 1) The increase in construction costs was too high.
- 2) I have no confidence that the \$505.5 million proposed "fixed price", based on past SCE&G performance, that the "fixed price" contract the company wanted to enter into with Westinghouse to complete the project would actually be enforced by SCE&G if Westinghouse began losing money. Thus even if the "fixed price" would be in the ratepayers' best interest, without the "fixed price" really being fixed SCE&G eventually would come back to the PSC for additional costs at the expense of the ratepayers.
- 3) The company's Return on Equity was too high.

The settlement entered into today by the Office of Regulatory Staff, SCE&G and most of the intervening parties addresses each of these concerns.

- 1) The total cost of SCE&G's request is slightly reduced by \$20.45 million.
- 2) The "fixed price" is now actually fixed in that SCE&G agrees that, with a few appropriate exceptions, if the cost of completing the plants goes over the \$505.5 million "fixed price", the company will never ask the ratepayers to cover the additional costs. Instead, future cost overruns will be borne by SCE&G shareholders or Westinghouse.
- 3) The company's Return on Equity will be reduced to 10.25 percent from the current 10.5 percent starting with rate adjustments under the BLRA beginning in January 2017.

Reducing the total cost increase being requested by SCE&G, even if it is minimal, is obviously a good thing for ratepayers who will pay for the financing of these costs in next year's rate increase and eventually for the construction costs themselves after the plants go online.

Reducing the Return on Equity starting with next year's rate adjustment is also a good result. While a quarter of a percent doesn't sound like much of a victory, SCE&G projects that it will save ratepayers approximately \$26 million by the time the plants go online.

The most important victory for the ratepayers in this settlement, which also has implications for future BLRA projects, is the fixing of the "fixed price" with future construction cost overruns being the responsibility of the power company or its vendors.

This settlement is an acknowledgment by SCE&G that ratepayers should be protected from most cost overruns and schedule delays. Company shareholders should have skin in the game which should increase pressure on the company and its vendors to complete the project on time and on budget. Unfortunately this acknowledgement comes only after the project is a billion plus dollars over budget and three years behind schedule. Nevertheless, SCE&G should be given credit for this important conclusion.

This settlement essentially stops the blank check for SCE&G on this project.

However, it is critical that the South Carolina General Assembly prevent a blank check from being given to any future utility building a power plant under the BLRA. While amending the BLRA will not impact SCE&G's construction of these two nuclear plants, the experience has clearly demonstrated that the BLRA must be amended in the upcoming legislative session to stop future blank checks.

I personally agree with the BLRA amendments that have been proposed by the [STOP THE BLANK CHECK](#) coalition, which are:

1. Utility Accountability - Allow the use of the BLRA to recover construction financing costs only on the original PSC approved budget for construction. Any construction financing costs for additional construction expenses will be recovered in a general rate proceeding after the plant is used and useful (i.e. online producing energy for consumers). This will focus the utility on making the most prudent cost projections and construction decisions because the company will have its own finances on the line or cost overruns and delays.
2. Utility Transparency - The SC Office of Regulatory Staff shall be an advisory-only party to all contractual negotiations and contract decisions for construction projects being submitted to the PSC for approval. Such an advisory-only role by the Office of

Regulatory Staff does not constitute its approval of any eventual contracts nor is it to be construed that any subsequent contracts are prudent. The SCE&G experience has shown that ultimately the ratepayer will be the victim of imprudent contracts between the utility and vendors.

3. Utility Profit Regulation - Allow the PSC to decide the utility's Return on Equity under the BLRA. This re-empowering of the PSC is essential to truly protect the consumers from a state-approved utility monopoly.
4. Utility Responsibility - The utility shall demonstrate to the PSC the prudence of transaction costs, or decision by a preponderance of the evidence. Currently the burden to show that a construction decision is prudent is on a challenging party, not the utility.

Finally, I appreciate the efforts of the Office of Regulatory Staff for engaging the utility and intervenors in a successful negotiation process that has resulted in this settlement. It is clear to me that had this settlement not been reached, the blank check for SCE&G would have continued.

Therefore I strongly encourage the PSC to approve this settlement.

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